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UNCLAS SECTION 01 OF 03 ASUNCION 000726

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SUBJECT: AMBASSADOR CALLS ON NEW FINANCE MINISTER WHO
ESPOUSES POLICY CONTINUITY

REF: 05 Asuncion 675

1. (U) Sensitive But Unclassified - please protect accordingly.

2. (SBU) Summary: In a meeting with the Ambassador and Treasury technical advisors on May 26, new Minister of Finance Ernst Bergen assured the Ambassador that the GOP would maintain the same fiscally conservative policies and the same focus on advancing structural reform as his predecessor, Dionisio Borda. Minister Bergen confirmed that the GOP would be seeking a new IMF program, to include the possibility of a program for the duration of President Duarte's term (2008). Bergen pointed to increased infrastructure spending and more private investment as the ways to achieve President Duarte's goal of spurring job creation. Bergen plans to reinvigorate coordination with the private sector through a Development Council, although Bergen said he would not lower taxes. The Ambassador introduced three of the Treasury technical advisors and the Resident Legal Advisor, and each gave overviews of their work. Bergen expressed appreciation for their contributions. While it remains too early to predict, there is no clear reason to expect any significant reduction in the Economic Team's efforts to maintain macroeconomic stability and continue pressing on with structural reforms. End Summary.

3. (U) On May 26, the Ambassador met with Paraguay's new Minister of Finance, Ernst Bergen. As noted in reftel, on May 19 President Duarte asked then-Minister of Industry and Commerce Bergen to move to Finance to replace former Minister Borda, who had resigned. One purpose of the meeting was to introduce members of the USG technical assistance team, several of whom work in the Ministry of Finance. Economic Counselor, Treasury Department Office of Technical Assistance (OTA) Enforcement, Debt and Tax advisors, and the Department of Justice Resident Legal Advisor accompanied the Ambassador to the meeting. The USAID Mission Director also attended to update Minister Bergen on the status of Tropical Forest Conservation Act negotiations.

4. (SBU) Minister Bergen began the meeting by assuring the Ambassador that he would maintain the same fiscally conservative policies and the same focus on advancing structural reform as his predecessor, Dionisio Borda. As a businessman, he said he understood well the need for predictability, and that a change in ministers did not have to mean a change in policies. Bergen emphasized that Borda is a close friend who would be available for expert consultations. He pointed to the fact that he had retained nearly all of Borda's team as evidence that his assertion was sincere. Note: The Ministry's Chief Counsel and the Vice Minister of Economy resigned, as did four of Borda's closest advisors. The rest of the team has stayed. Bergen mentioned that the former Vice Minister of Economy probably would act in an advisory capacity. End Note.

5. (SBU) The Ambassador asked Bergen how he planned to implement the President's vision of continued reforms and prudent policies while creating more jobs. Bergen said there are two ways to generate jobs: 1) infrastructure spending, where he hopes to accelerate the implementation of existing loans and projects; and 2) private sector investment, which he said requires continued macro stability, a new IMF program, and what he called a "strong alliance" with the private sector. Minister Bergen also told us that President Duarte had authorized him to seek a new IMF program, including the possibility of a program that would last through the end of the President's term, which ends in 2008. (Bergen announced the GOP's intention to seek a new IMF program publicly as well.)

¶6. (SBU) Minister Bergen mentioned the newly created Development Council, which is supposed to be a forum for more organized public-private sector interaction on economic policy. Bergen emphasized, though, that greater cooperation with the private sector did not entail ceding policy making responsibility to the sector, and he specifically ruled out tax reductions. He acknowledged that he cannot work miracles, but said the process could be reinvigorated. He asserted that the private sector needs to be more proactive, and that the GOP needs to encourage that through regular dialogue. The Ambassador noted that Paraguay's rigid labor code poses an obstacle to formal job creation and asked if the GOP planned to address it. Minister Bergen stated that President Duarte supports labor reform, and said he planned to address the labor code within the Development Council.

¶7. (SBU) Minister Bergen also mentioned the binational entities controlling the two major international dams - Itaipu, shared with Brazil, and Yacyreta, shared with Argentina. Bergen noted that the interest rates on the entities' debt are unjustifiably high (over 12 percent for Itaipu). He pointed out that the entities' debt surpasses many times over Paraguay's own debt burden and that the excessive interest payments need to be addressed to free up more resources for development. Note: Renegotiating the entities' debt will involve Brazil and Argentina. For example, Brazilian state banks reportedly keep on the order of 300 basis points as an intermediary fee. End note.

¶8. (SBU) In response to the Ambassador's question about the source of resources to boost infrastructure spending, Bergen said he wanted to facilitate the more rapid implementation of already existing projects, which are often mired in bureaucracy or political infighting or held back by a lack of human resources capacity. The Ambassador also asked about Bergen's plans for the several special units created by Minister Borda, which include a public investment oversight unit (UCIP), a business climate unit, a transparency unit and others. Bergen said he wanted to better institutionalize the units and that he planned to move UCIP to report to the Vice Minister of Economy rather than directly to him. The business climate unit will likely be moved to the MIC, and the fate of some of the others remains under consideration.

¶9. (U) The Ambassador introduced the advisors from Treasury's Office of Technical Assistance (OTA) and each gave a brief overview of their work. Minister Bergen expressed appreciation for the valuable assistance. On debt, he signaled his strong support for deepening Paraguay's capital market and dematerializing bonds. Note: Even today, the Minister of Finance must personally sign the authorization for each coupon payment. End note. He indicated that both the new Minister of Industry and Commerce, Raul Vera, and the incoming President of the Central Bank, Monica Perez, would support that effort, and he noted the importance of the signals an active secondary market can provide to policy makers.

¶10. (U) OTA's Resident Enforcement Advisor provided an overview of efforts to create various vetted investigative units, including an Inspector General within Finance, as well as investigative units within the Tax Department and Customs. Bergen expressed his support and arranged on the spot a follow-on meeting for the OTA enforcement and intermittent tax advisors with a Ministry legal official to move the issue forward.

Comment

¶11. (SBU) Bergen's no-nonsense leadership style was evident from his actions in the meeting. He makes decisions quickly when he can, but is not afraid to hold back if an issue needs further study. He believes in empowering his subordinates and decentralizing his control more than Minister Borda did. Bergen is a wealthy Mennonite businessman, and his preference for quick action and minimized bureaucracy were clear. Time will tell how well his style works within the Ministry of Finance, which is much larger and subject to much greater outside pressures than the Ministry of Industry and Commerce.

¶12. (SBU) Bergen's close relationship with the President has led many commentators, including Borda himself (septel), to warn that the change in leadership presages the creation of an artificial and unsustainable economic bubble for the purpose of creating jobs in advance of intra-party elections in May 2006. Bergen has publicly denied that such a plan exists, adding that he would resign before participating in that policy. As noted reftel, in the President's speech naming Bergen, he stated the Bergen would maintain fiscal responsibility.

¶13. (SBU) It is significant that Minister Bergen has kept

most of Borda's team of Vice Ministers, especially Andres Neufeld of the Tax Department and Margarita Diaz de Vivar, the Director of Customs. His new Vice Minister of Economy, Jorge von Horoch, was with Bergen at the MIC as his Vice Minister of Industry. Von Horoch is well known to the Embassy as a strong leader and orthodox thinker. Von Horoch, who received this year's award for outstanding Fulbright Scholar and who was once an FSN in the Economic Section, was a stalwart supporter of IPR enforcement while at the MIC.

14. (SBU) Bergen does want to do a better job of cajoling the private sector to invest more and create jobs, but his tools are limited. While it remains too early to predict, there is no clear reason to expect any significant reduction in the Economic Team's efforts to maintain macroeconomic stability and continue pressing on with structural reforms.

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